

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

MARION, HOWELL, OCEOLA & GENOA SEWER
& WATER AUTHORITY

REPORT ON AUDIT OF
FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2006

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY

SEWER & WATER AUTHORITY BOARD

Chairman - Gary McCririe
Vice-Chairman - Robert Hanvey
Treasurer - Robin Hunt
Secretary - William Bamber
Member - Maureen Cross
Member - James Phelan
Member - Lance Schuhmacher
Member - Daniel Lowe

UTILITY DIRECTOR

Dr. Gregory Tatara

SEWER & WATER AUTHORITY AUDITORS

Pfeffer, Hanniford & Palka
Certified Public Accountants

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December 15, 2006

Marion, Howell, Oceola & Genoa
Sewer & Water Authority
2911 Dorr Road
Brighton, Michigan 48116

INDEPENDENT AUDITORS' REPORT

Honorable Board of Trustees:

We have audited the accompanying financial statements of the Marion, Howell, Oceola & Genoa Sewer & Water Authority as of and for the year ended September 30, 2006. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marion, Howell, Oceola & Genoa Sewer & Water Authority, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year end in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 6 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marion, Howell, Oceola & Genoa Sewer & Water Authority's basic financial statements. The supplementary information presented for purposes of additional analysis is not a required part of the basic financial statements. The supplementary information have not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

MANAGEMENT
DISCUSSION
AND
ANALYSIS

Management Discussion and Analysis September 30, 2006

Within this section of the Marion, Howell, Ocala & Genoa Sewer & Water Authority financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2006. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's financial statements. The financial statements include all the statements required by the Governmental Accounting Standards Board and the notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The Authority's annual reports include two Authority-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Revenues, Expenses and Changes in Net Assets which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

The Authority's financial reporting includes all the funds of the Authority (primary government) and, additionally, organizations for which the Authority is accountable (component units). Since the Authority's sole purpose is to operate and manage a water system, only one fund is maintained. Thus, there are no fund financial statements prepared by the Authority.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

Other information

In addition to the financial statements and accompanying notes, this report also presents certain supplementary information. Other supplementary information includes a budget to actual reconciliation for current year Authority operations.

Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$43,361,318. This is a \$6,420,254 increase over last year's net assets of \$36,941,064.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

Summary of Net Assets

	<u>09/30/2006</u>	<u>09/30/2005</u>
ASSETS		
Current and other assets	\$ 2,283,781	\$ 1,740,926
Restricted assets	1,615,495	1,444,275
Capital assets, net	<u>39,907,177</u>	<u>34,264,893</u>
Total assets	<u>43,806,453</u>	<u>37,450,094</u>
LIABILITIES		
Accounts payable	127,431	70,366
Due to others (from restricted assets)	<u>317,704</u>	<u>438,664</u>
Total liabilities	<u>445,135</u>	<u>509,030</u>
NET ASSETS		
Invested in capital assets	39,907,177	34,264,893
Unrestricted	<u>3,454,141</u>	<u>2,676,171</u>
Total net assets	<u>\$ 43,361,318</u>	<u>\$ 36,941,064</u>

Summary of Changes in Net Assets

	<u>09/30/2006</u>	<u>09/30/2005</u>
Operating revenues	\$ 2,024,767	\$ 1,876,987
Operating expenses		
System operations	2,034,432	1,721,832
Administrative	<u>221,697</u>	<u>158,087</u>
Total operating expenses	<u>2,256,129</u>	<u>1,879,919</u>
Operating (loss)	(231,362)	(2,932)
Non-operating revenues, net	97,303	79,446
Capital contributions	<u>6,554,313</u>	<u>7,436,500</u>
Net income	6,420,254	7,513,014
Beginning net assets	<u>36,941,064</u>	<u>29,428,050</u>
Ending net assets	<u><u>\$ 43,361,318</u></u>	<u><u>\$ 36,941,064</u></u>

Revenues from operations increased by 8%, as usage increased due to 208 new users being added to the system and a rate increase of \$0.05 per 1,000 gallons. Operating expenses increased slightly over the prior year due to depreciation expense, increased cost of chemicals, and meter replacements. Member capital cash contributions decreased significantly because of the completed expansion project in progress.

Member capital (non-cash) contributions or additions to the water system by developers and townships increased mainly because of the large developments in Oceola and Howell Township.

As a result, net income decreased from \$7,513,014 for the year ended September 30, 2005 to \$6,420,254 for the year ended September 30, 2006.

Capital and Debt Administration

The Authority itself does not have any long-term debt. However, the individual member townships have issued debt over the years to finance the construction of the water treatment plant, various pumps and water lines in the respective townships. The townships are responsible for paying their own debt.

The member townships and various developers directly spent \$4,654,313 for additions to the system (water lines, pumps, etc.). This amount is recorded as capital contributions - additions to system or income in the statement of revenues and expenses since the infrastructure is added to the Authority's fixed assets and will be depreciated over future years. In addition, the Authority paid out \$1.8 million for the ongoing \$11 million plant expansion project.

Economic Factors and Next Year's Goals

The Authority's financial outlook continues to remain relatively strong. The population in the service area is expected to grow with new users being regularly added to the system. The growth will however, more than likely slow down compared to prior years with the downturn in the economy.

Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have further questions about this report or request additional information, please contact the Authority at 2911 Dorr Road, Brighton, Michigan, 48116.

FINANCIAL
STATEMENTS

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

ASSETS

CURRENT ASSETS

Cash	\$ 1,373,841	
Accounts receivable - water operations	865,067	
Accounts receivable - Genoa Township	20,374	
Prepaid expenses	5,749	
Inventory	<u>18,750</u>	
Total current assets		\$ 2,283,781

RESTRICTED ASSETS

Cash - (collected on behalf of others)	88,562	
Cash - expansion	378,992	
Cash - equipment replacement	707,315	
Cash - Howell Township water tower	172,038	
Cash - Escrows	<u>268,588</u>	
Total restricted assets		1,615,495

CAPITAL ASSETS

Land	328,982	
Water System	35,850,881	
Equipment	<u>130,092</u>	
	36,309,955	
Less accumulated depreciation	<u>6,248,960</u>	
Net property, plant and equipment		30,060,995

CONSTRUCTION IN PROGRESS

9,846,182

Total assets

43,806,453

LIABILITIES

CURRENT LIABILITIES (from unrestricted assets)

Accounts payable - water operations	127,431
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CURRENT LIABILITIES (from restricted assets)

Due to others - escrows	268,588	
Due to other water and sewer districts	<u>49,116</u>	
Total current liabilities (from restricted assets)		<u>317,704</u>
Total current liabilities		<u>445,135</u>

NET ASSETS

NET ASSETS

Investment in capital assets	39,907,177	
Unreserved	<u>3,454,141</u>	
Total net assets		<u>\$ 43,361,318</u>

The accompanying notes are an integral part of these financial statements

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MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

OPERATING REVENUES

Billings - operations	\$ 1,990,773
Meter sales - net	20,374
Services fees	<u>13,620</u>

Total operating revenues \$ 2,024,767

OPERATING EXPENSES

Labor - contract	559,372
Meter reading	26,868
Chemicals and supplies	115,929
Repairs and maintenance	187,918
Inspections and testing	8,289
Utilities	193,211
Telephone	24,685
Meters and supplies for meters	100,360
Miss digs	237
Depreciation	811,228
Small equipment	3,850
Back flow prevention program	<u>2,485</u>

Total operating expenses 2,034,432

ADMINISTRATION EXPENSES

Director fees	16,971
Office expenses	6,494
Per diem - board members	14,000
Bookkeeping	6,720
Accounting and audit fees	21,085
Insurance	35,541
Administration - billing preparation	86,211
Consulting and engineering	<u>34,675</u>

Total administration expenses 221,697

Total expenses 2,256,129

OPERATING (LOSS) \$ (231,362)

The accompanying notes are an integral part of these financial statements

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS- (continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NON-OPERATING REVENUES

Interest income	\$ 43,806
Rental income	34,255
Other income	<u>19,242</u>

Total non-operating revenue		\$ <u>97,303</u>
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CAPITAL CONTRIBUTIONS

Member contributions - cash	1,900,000
Developer contributions - additions to system	<u>4,654,313</u>

Total capital contributions		<u>6,554,313</u>
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Net income		6,420,254
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NET ASSETS, OCTOBER 1, 2005		<u>36,941,064</u>
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NET ASSETS, SEPTEMBER 30, 2006		<u>\$ 43,361,318</u>
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MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
STATEMENT OF CASH FLOWS - DIRECT METHOD
FOR THE YEAR ENDED SEPTEMBER 30, 2006

CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Receipts from customers	\$ 3,218,332	
Receipts (net) from developers, others	278,055	
Payments to vendors	<u>(2,975,570)</u>	
Net cash from operating activities		\$ 520,817
CASH FLOWS FROM (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES		
Member contributions	1,900,000	
Acquisition of capital assets/construction	<u>(1,799,199)</u>	
Net cash from capital and related financing activities		100,801
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	43,806	
Rental income	<u>34,255</u>	
Net cash from investing activities		<u>78,061</u>
Increase in cash		699,679
CASH AT OCTOBER 1, 2005		<u>2,289,657</u>
CASH AT SEPTEMBER 30, 2006		<u><u>\$ 2,989,336</u></u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH FROM (USED IN) OPERATING ACTIVITIES		
Operating (loss)		\$ (231,362)
Adjustments to reconcile operating (loss) to net cash from (used in) operating activities		
Other income		19,242
Depreciation expenses		811,228
Changes in assets and liabilities		
Receivables, net		(38,067)
Inventory		(18,750)
Accounts payables, net		57,065
Prepaid expenses		42,421
Due to others, net		<u>(120,960)</u>
Net cash from operating activities		<u><u>\$ 520,817</u></u>

The accompanying notes are an integral part of these financial statements

NOTES
TO
FINANCIAL
STATEMENTS

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 1 - DESCRIPTION OF THE REPORTING ENTITY

The Marion, Howell and Oceola Sewer & Water Authority was incorporated on February 28, 1994, under Act No. 233, Public Acts of Michigan, 1955 as amended. On March 20, 1996 the articles of incorporation were amended to add Genoa Township to the Authority. The four incorporating municipal entities are Marion, Howell, Oceola and Genoa Townships. The purpose of the Authority is to acquire, own, improve, enlarge, extend, operate, maintain, manage and administer sewage disposal systems, water supply systems, or both.

The construction of a water system was completed in December of 1997. Thus, the Marion, Howell, Oceola and Genoa Sewer & Water Authority (MHOG) began operations in January of 1998.

The financing of the water system was done mostly by the sale of contract bonds which are retired through special assessments by the various townships through the Livingston County Department of Public Works. There were several construction funds set-up to administer the disbursements of funds to pay for the construction at the Livingston County Department of Public Works. Disbursements of funds have also been paid out of various funds maintained by the various townships for construction of the system.

The Authority board is composed of two voting representatives from each township. Each representative serves a one year term. The four townships also appoint an alternate representative or representatives who attend meetings in the absence of the representative appointed by the alternate's respective township.

A. SIGNIFICANT ACCOUNTING POLICIES

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an Enterprise Fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, liabilities, net assets, revenues, and expenses. Enterprise funds account for activities:

1. that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or
2. that are required by laws or regulations that the activity's costs of providing service, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar reviews; or
3. that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

B. MEASUREMENT FOCUS

The financial activities of the Authority are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with its operations are included on the statement of net assets; revenues are recorded when earned, and expenses are recorded when liabilities are incurred.

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 1 - DESCRIPTION OF THE REPORTING ENTITY - continued

C. CASH AND CASH EQUIVALENTS

The Authority considers its deposits and restricted deposits and investments held with maturities of three months or less to be cash equivalents.

D. CAPITAL ASSETS

Capital assets are stated at cost. Depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the related assets, which range from 5 to 10 years for equipment and 5 to 40 years for buildings, structures, and improvements.

E. CONSTRUCTION-IN-PROGRESS

The costs of acquisition and construction of major plant and equipment is recorded as construction-in-progress. As facilities are accepted by the Authority and become operative, they are transferred to the facilities and improvements or machinery and equipment accounts and depreciated in accordance with the Authority's depreciation policies. Costs of construction projects that are discontinued are recorded as expense in the year in which the decision is made to discontinue such projects.

F. CAPITALIZATION OF INTEREST

A portion of the interest cost incurred on capital projects is capitalized on assets that require a period of time for construction or to otherwise prepare them for their intended use. Such amounts are amortized over the useful lives of the assets.

G. PREMIUM AND ISSUANCE COSTS

Bond discount, premium, and issuance costs are amortized over the term of the related bonds. No such bond discount/premiums or issuance costs were outstanding or issued during the year ended September 30, 2006.

NOTE 2 - MANAGEMENT'S ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

Michigan Compiled Laws Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers; acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
First National Bank, Howell Insured	\$ 100,000	\$ 100,000
Uninsured and uncollateralized	<u>2,889,336</u>	<u>2,972,735</u>
	<u>\$ 2,989,336</u>	<u>\$ 3,072,735</u>

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable consist of regular quarterly billings and penalties. Each year, as of September 30, accounts receivable that are over 90 days old are placed on the tax roll for the applicable township. As of September 30, 2006, approximately \$69,651 of the outstanding \$865,067 accounts receivable went on the tax roll for collection. The Authority will receive the \$69,651 by March of 2007 through the tax collection process. The remaining accounts receivable of \$795,416 (\$865,067 - \$69,651) were under 90 days old as of September 30, 2006.

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

The following is a summary of changes in property, plant and equipment:

	Balance 10-1-05	Additions	(Deletions)	Balance 9-30-06
Land	\$ 328,982	\$	\$	\$ 328,982
Water system	31,145,105	4,705,776		35,850,881
Equipment	<u>118,802</u>	<u>11,290</u>		<u>130,092</u>
Total	<u>\$ 31,592,889</u>	<u>\$ 4,717,066</u>	<u>\$</u>	<u>\$ 36,309,955</u>
Construction in progress	<u>\$ 8,109,736</u>	<u>\$ 1,801,473</u>	<u>\$ 65,027</u>	<u>\$ 9,846,182</u>

The Authority is virtually complete with its expansion of the water treatment plant and expects it to be fully functional at the beginning of the next fiscal year. Total costs are estimated to be approximately \$11,000,000.

The following is a summary of changes in accumulated depreciation:

Balance October 1, 2005	\$ 5,437,732
Depreciation incurred for the year ended September 30, 2006	<u>811,228</u>
Balance September 30, 2006	<u>\$ 6,248,960</u>

Depreciation related to the water system and equipment is recorded as depreciation expense on the statement of revenues and expenses. Depreciation is recorded on the straight-line basis over the estimated useful life of the asset which is as follows:

Water system - plant and distribution system	5 to 40 years
Equipment	5 to 10 years

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 6 - STATEMENT OF CASH FLOWS

Pursuant to Governmental Accounting Standards Board (GASB) statement number 9, a statement of cash flows is presented. The purpose of the statement of cash flows is to explain the change in cash and cash equivalents during the year.

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less. The indirect method was utilized to present cash flows from operations. The following is a summary of beginning and ending cash and cash equivalents:

	Beginning Balance October 1, 2005	Ending Balance September 30, 2006
CURRENT ASSETS		
Cash and cash equivalents	\$ 845,382	\$ 1,373,841
RESTRICTED ASSETS		
Cash and cash equivalents	<u>1,444,275</u>	<u>1,615,495</u>
Total cash and cash equivalents	<u>\$ 2,289,657</u>	<u>\$ 2,989,336</u>

NOTE 7 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 8 - SEGMENT INFORMATION

Selected financial information is as follows:

Operating revenue	\$ 2,024,767
Depreciation	811,228
Total assets	43,806,453
Total net assets	43,361,318
Net income	6,420,254

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 9 - BUDGET INFORMATION

The Authority adopts an annual budget for operations of the water system prior to the fiscal year. The budget is amended from time to time to reflect economic reality.

The Authority excludes from the annual operating budget such items as:

- Depreciation
- Contributions from developers and members
- Major purchases from its reserve cash account

The Authority includes in the annual operating budget such items as:

- Major capital asset purchases from its Operations and Maintenance cash account.
- Transfers to reserves from Operations and Maintenance cash account.

The following schedule is reconciliation between the Statement of Revenues, Expenses and Changes in Net Assets (GAAP) and the Schedule of Revenues, Expenses and Transfers - Budget to Actual (Non-GAAP, supplementary information).

Per statement of Revenues, Expenses and Changes in Net Assets		
Net income		\$ 6,420,254
Reconciling items		
Additions		
Depreciation expense		811,228
Deductions		
Transfers to reserves	\$ (209,255)	
Contributions	(6,554,313)	
Capital purchases from Operations and Maintenance	(20,795)	
Interest income-reserves	<u>(19,515)</u>	
Total deductions		<u>(6,803,878)</u>
Net revenues over expenses and transfers per		
budget to actual report		<u>\$ 427,604</u>

SUPPLEMENTARY
INFORMATION

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
SCHEDULE OF REVENUES, EXPENSES AND TRANSFERS – BUDGET TO ACTUAL – OPERATIONS ONLY
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Actual One Year 9-30-06	Budget One Year 9-30-06	Variance Favorable (Unfavorable)
REVENUES			
Billings	\$ 1,990,773	\$ 1,900,000	\$ 90,773
Other revenues	32,862	6,000	26,862
Rental income – Howell Tower	34,255	37,260	(3,005)
Meter sales	20,374	20,000	374
Interest income	24,291	20,000	4,291
Total revenues	<u>2,102,555</u>	<u>1,983,260</u>	<u>119,295</u>
EXPENSES – OPERATIONS			
Labor - contract	550,056	550,000	(56)
Labor - out of scope	36,184	40,000	3,816
Lime sludge removal		60,000	60,000
Lab testing		5,000	5,000
Chemicals and supplies	115,929	105,000	(10,929)
Repairs and maintenance – grounds/building	7,509	10,000	2,491
Repairs and maintenance - other	180,409	180,000	(409)
Inspection and testing	8,289	10,000	1,711
Utilities - electric	172,265	170,000	(2,265)
Utilities - gas	20,946	28,000	7,054
Telephone	24,685	25,000	315
Backflow Prevention Program	2,485	5,000	2,515
MXU/GPS Meter Program	99,315	100,000	685
Meters and supplies for meters	1,045	5,000	3,955
Miss Dig	237	1,500	1,263
Other		10,000	10,000
Capital purchases	15,140	10,000	(5,140)
Total operating expenses	<u>1,234,494</u>	<u>1,314,500</u>	<u>80,006</u>
EXPENSES – ADMINISTRATION			
Director fees	16,971	16,000	(971)
Office expenses	6,494	5,000	(1,494)
Per diem – board members	14,000	15,500	1,500
Bookkeeping	6,720	6,720	
Accounting and audit fees	21,085	25,000	3,915
Insurance	35,541	37,000	1,459
Legal		1,500	1,500
Administration – billing preparation	86,211	87,000	789
Consulting and engineering	44,180	45,000	820
Total administration expenses	<u>231,202</u>	<u>238,720</u>	<u>7,518</u>
TRANSFERS TO RESERVES FROM O & M	175,000	175,000	
TRANSFERS TO RESERVES – HOWELL TOWER RENT	34,255	37,260	3,005
Total transfers to reserves	<u>209,255</u>	<u>212,260</u>	<u>3,005</u>
TOTAL EXPENSES AND TRANSFERS	<u>1,674,951</u>	<u>1,765,480</u>	<u>90,529</u>
Net revenues over expenses and transfers	<u>\$ 427,604</u>	<u>\$ 217,780</u>	<u>\$ 209,824</u>

This schedule is prepared to present revenues and expenses related to current operations only and includes capital purchases and transfers to reserves and as such does not present the results of operations on the basis of generally accepted accounting principles but is presented for supplemental information. See footnote for reconciliation of Budget to Actual report and Statement of Revenues, Expenses and Changes in Net Assets.

MARION, HOWELL, OCEOLA & GENOA SEWER & WATER AUTHORITY
SCHEDULE OF REVENUES, EXPENSES AND TRANSFERS - OPERATIONS ONLY
COMPARISON OVER NINE YEARS

	<u>9/30/2006</u>	<u>9/30/2005</u>	<u>9/30/2004</u>	<u>9/30/2003</u>	<u>9/30/2002</u>
REVENUES					
Billings	\$ 1,990,773	\$ 1,854,221	\$ 1,530,160	\$ 1,364,164	\$ 1,309,370
Interest income	24,291	14,132	6,007	7,571	6,758
Rental income - Howell Tower	34,255	36,855	34,425	28,350	
Wellhead protection grant		2,982	21,845		9,585
Meter sales	20,374	19,784	31,916	24,398	21,155
Other income	<u>32,862</u>	<u>28,459</u>	<u>1,786</u>	<u>3,294</u>	<u>2,847</u>
Total revenues	<u>2,102,555</u>	<u>1,956,433</u>	<u>1,626,139</u>	<u>1,427,777</u>	<u>1,349,715</u>
EXPENSES – OPERATIONS					
Labor – contract	550,056	566,566	514,614	457,495	493,017
Labor – non-contract	36,184	28,112	25,112	67,385	126,248
Lime sludge removal				31,825	25,000
Lab testing		2,409	4,061	448	1,967
Chemicals and supplies	115,929	2,636	9,538	16,400	58,729
R & M - grounds and building	7,509	3,536	6,964	6,955	12,323
R & M – other	180,409	147,414	237,992	183,885	139,306
Inspections and testing	8,289	2,125	5,968	1,859	
Utilities - electric	172,265	150,782	123,322	112,977	109,620
Utilities – gas	20,946	11,259	7,197	6,075	4,417
Telephone	24,685	18,320	15,710	15,723	11,727
Backflow Prevention Program	2,485				
MXU/GPS Meter Program	99,315				
Meter installs - labor					6,020
Meter and supplies for meters	1,045	1,526	1,984	3,567	1,265
Miss Dig	237	234	1,128	862	862
Other					
Capital purchases	<u>15,140</u>	<u>17,619</u>			
Total expenses - operations	<u>1,234,494</u>	<u>952,538</u>	<u>953,590</u>	<u>905,456</u>	<u>990,501</u>
EXPENSES – ADMINISTRATION					
Director fees	16,971				
Office expenses	6,494	1,353	269	1,152	1,323
Per Diem - board members	14,000	12,525	12,525	12,850	9,475
Bookkeeping	6,720	6,480	6,480	6,300	
Accounting/audit fees	21,085	20,335	19,485	18,500	16,170
Insurance	35,541	35,354	34,031	30,041	24,889
Vulnerability assessment			15,600		
Legal		752			
Mapping project			8,031	2,768	
Wellhead protection expenses		339	32,046	9,073	11,394
Meter reading -					
billing preparation	86,211	75,337	69,501	58,300	49,152
Sewer assessment					
Consulting and engineering	<u>44,180</u>	<u>5,612</u>	<u>2,625</u>	<u>575</u>	<u>987</u>
Total expenses - administration	<u>231,202</u>	<u>158,087</u>	<u>200,593</u>	<u>139,559</u>	<u>113,390</u>
TRANSFERS TO RESERVES	<u>209,255</u>	<u>181,855</u>	<u>179,525</u>	<u>148,350</u>	<u>58,281</u>
Total expenses and transfers to reserves	<u>1,674,951</u>	<u>1,292,480</u>	<u>1,333,708</u>	<u>1,193,365</u>	<u>1,162,172</u>
Net revenues, expenses, transfers	<u>\$ 427,604</u>	<u>\$ 663,953</u>	<u>\$ 292,431</u>	<u>\$ 234,412</u>	<u>\$ 187,543</u>

This schedule is prepared to present revenues and expenses related to current operations only (excludes member contributions and depreciation) and includes transfer to reserves and as such does not present the results of operations on the basis of generally accepted accounting principles but is presented for supplemental information.

<u>9/30/2001</u>	<u>9/30/2000</u>	<u>9/30/1999</u>	<u>9/30/1998</u>
\$ 985,744	\$ 714,055	\$ 559,837	\$ 351,479
10,515	4,847	2,821	1,529
5,686	6,945	830	
46,702	62,196	226,016	115,875
<u>11,567</u>	<u>5,104</u>	<u>10,838</u>	<u>23,836</u>
<u>1,060,214</u>	<u>793,147</u>	<u>800,342</u>	<u>492,719</u>
339,796	201,798	184,253	98,235
137,135	69,236	67,001	45,573
933	1,150	1,663	4,852
59,131	32,081	38,020	35,043
11,852	17,638	7,267	2,223
63,352	62,817	24,192	6,146
1,769	624	590	620
98,615	74,420	60,193	46,033
5,160	5,088	7,216	7,904
8,294	8,390	9,373	7,385
5,031	5,498	5,492	6,455
2,636	16,120	206,373	108,759
110			
	347		
<u>733,814</u>	<u>495,207</u>	<u>611,633</u>	<u>369,228</u>
899	441	561	1,296
10,425	8,025	10,125	5,525
17,175	14,845	14,735	5,850
	2,831		
5,686	6,445		
40,936	34,142	26,354	25,665
	5,717	4,273	
<u>75,121</u>	<u>72,446</u>	<u>56,048</u>	<u>38,336</u>
<u>35,500</u>	<u>35,500</u>	<u>35,500</u>	<u>26,625</u>
<u>844,435</u>	<u>603,153</u>	<u>703,181</u>	<u>434,189</u>
<u>\$ 215,779</u>	<u>\$ 189,994</u>	<u>\$ 97,161</u>	<u>\$ 58,530</u>



PFEFFER ■ HANNIFORD ■ PALKA
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December 16, 2006

Honorable Board of Trustees
Marion-Howell-Oceola & Genoa SWATH
2911 Dorr Road
Brighton, Michigan 48116

Dear Honorable Board of Trustees:

During the audit process for the year ending September 30, 2006 certain items came to our attention which we would like to discuss with you. Those items are as follows:

1. When confirming bank information it was brought to our attention by First National Bank there are three individuals which are listed as signers on the accounts who no longer serve on the Marion Howell Oceola Genoa (MHOG) SWATH Board. Per discussions with the Treasurer, the problem has been resolved.
2. It appears Cingular is no longer paying for rent of space on the Howell water tower. No verification could be found showing the equipment has been removed from the water tower. We suggest the Authority review this situation
3. There were two payments made by the expansion fund for sensors and fencing. According to the minutes the costs should be split between the expansion and Operation and Maintenance funds. The amount owed by Operation and Maintenance to expansion is \$24,784.27. We recommend the amount be paid.

We would like to thank Robin, Greg and employees that assisted us during the audit process for their cooperation.

If you should have any questions, comments or concerns please do not hesitate to call us.

This report is intended solely for the information and use of the Board of Trustees and management of Marion Howell Oceola and Genoa (MHOG) SWATH and is not intended to be and should not be used by anyone other than the specified parties.

Pfeffer, Hanniford & Palka, P.C.

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Certified Public Accountants